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SUBJECT: FINANCIAL CRISIS CAUSING INCREASED UNEMPLOYMENT; FULL IMPACT STILL UNCLEAR

REF: A) Hanoi 205 ("Summer if Sink-or-Swim Time for Exporters")  
B) 09HO CHI MINH CITY 11 ("Falling Demand Prompts Factory Closings")  
C) Hanoi 1391 ("Further Effects of The U.S. Financial Crisis")

**¶1.** (SBU) Summary: The global economic slowdown and declining Foreign Direct Investment (FDI) is increasingly affecting Vietnam's economy, including employment levels. The Government of Vietnam (GVN) says unemployment is rising and labor officials predict that up to 400,000 workers in the formal sector may lose their jobs in **¶2009**. Another government source estimates the total could be much higher. The formal employment sector in Vietnam includes only those workers, which number about 9 million, employed by foreign enterprises, SOEs, and private Vietnamese companies. Over 80 percent of the Vietnamese labor force is still employed in the informal sector, the vast majority working in agriculture. Contacts in the private sector indicate that while they are not seeing massive layoffs at this point, the full effect on employment of the economic crisis will become clearer over the next several months. The GVN is responding with unemployment insurance, support for severance payments, and added efforts to boost labor exports. Unfortunately, a lack of reliable data hampers the GVN's ability to assess the unemployment situation accurately and limited administrative capacity hinders its ability to develop effective interventions. The GVN expects that since the majority of workers who will lose their jobs come from rural areas, they will simply return home and be absorbed by the agricultural sector or will find other forms of informal employment. End Summary.

Labor Force Structure; FDI Workers Most Affected

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**¶2.** (SBU) According to GVN estimates, about 80 percent of Vietnam's 45 million person labor force works in the informal sector, the vast majority in agriculture as small farmers. (Note: The GVN's statistical collection and analytical capabilities on labor are weak and its statistics should be viewed in that light.) MOLISA says the formal sector comprises 9 million workers. Approximately 2 million are currently working for Foreign Direct Investment (FDI) enterprises, 2 million are employed by state owned enterprises (SOEs), and 5 million are employed by the private domestic sector. According to the Central Institute of Economic Management (CIEM), which is part of the Ministry of Industry and Trade (MOIT), the 2 million SOE employees will remain employed because the GVN has told the SOEs that they cannot lay off any employees during the downturn. CIEM believes the 5 million Vietnamese employed in the private domestic sector will be buffered from the global economic downturn since 70 percent of their production is for domestic consumption, which CIEM expects will be less affected by the global downturn.

**¶3.** (SBU) CIEM officials estimate the impact of job losses will be most severe on workers of FDI enterprises dependent on export contracts, especially in the industrial zones in the southern part of the country. Employees working in furniture, textiles, footwear, food processing, and electronics (sectors heavily affected by decreasing demand for exports) will be those most at risk.

Unemployment Rising but Projections for the Year Vary

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**¶4.** (SBU) MOLISA recently announced that according to their latest

unemployment projections, approximately 400,000 formal sector workers may lose their jobs in 2009. This would mean an unemployment rate of approximately 10 percent in this sector. MOLISA reports that 66,700 workers had been laid off nationwide as of January 23. To date, Ho Chi Minh City ranks first with 19,000 workers losing jobs in January, followed by Hanoi with a job loss of nearly 10,000. The southern provinces of Dong Nai and Binh Duong also had significant losses of 8,000 to 9,000 per province in January. CIEM recently told Econoff that employment losses will be much more, and projects a potential loss of over 1 million jobs. At a March 6 meeting with the Ambassador, the Vice Chairman of the Vietnam Chamber of Commerce and Industry (VCCI), Vietnam's largest private business association, said VCCI estimated 400,000 to 1 million job losses this year.

**¶5. (U)** Econoff recently checked with representatives of some of Vietnam's most important export industries (Ref A). They reported significant drops in overseas orders and acknowledged that smaller factories have begun to close. However, job losses in these industries have not reached the dire levels some were predicting earlier this year. Still, they said they will face an inflection point beginning in several months as they fill existing orders and have to decide whether to significantly cut costs and workers if they do not receive new ones. Business representatives recently told the Consulate in Ho Chi Minh City (septel) that while some export-oriented companies have let workers go, others are hiring significant numbers of new laborers. The American Chamber of Commerce in Hanoi said last week that a membership survey found that while 20 percent of firms expect to lay off workers this year, 40 percent plan to hire new staff.

#### What Will Happen to the Workers?

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**¶6. (SBU)** MOLISA told Econoff that it anticipates most of the laid-off workers who come to industrial zones from rural areas will simply return home if no other jobs are available. The returning workers will be absorbed by the agricultural sector and supported by their families, or may find other types of informal employment, such as helping in shops or selling small goods. CIEM officials share MOLISA's views that unemployed workers will return to the agricultural sector or find employment in the informal sector. Nevertheless, CIEM predicts significant declines in the standard of living of agricultural households if family members employed in factories lose their jobs and are no longer able to send money home.

While people will be able to survive, there will be fewer funds available for education, healthcare, and transportation and unnecessary spending will be eliminated. According to CIEM, the Vietnamese people understand this and will adjust to the new situation. Others, such as Nguyen Quang A from the Institute for Development Studies, inject a note of caution, arguing that land-use disputes may increase in number and intensity as unemployed workers return home, particularly in semi-rural provinces neighboring Vietnam's larger industrial areas.

#### Rural Provinces: Business as Usual

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**¶7. (U)** A February provincial trip by Embassy officers highlighted the dichotomy of the employment effect of the global economic crisis on the formal and informal employment sectors in Vietnam. Government leaders in two rural provinces in the Central Highlands did not report a sharp increase in unemployment nor were they seeing large numbers of workers migrating into or out of the provinces. While local officials were aware of Vietnam's economic difficulties, they did not anticipate serious labor issues or social problems in their provinces. They noted that provinces with little FDI and few or no industrial zones may be in a better position to protect workers from job loss.

**¶8. (U)** Local businesses, including transportation companies, coffee and furniture producers, and organic flower and vegetable growers in these provinces did not anticipate laying off workers. Demand remains stable for goods and services being provided to the domestic market. Exporters to Japan and Europe were not yet seeing decreases in orders. In fact, one company reported increased flower exports to Japan since domestic Japanese flower producers were going out of business.

GVN Response: Multiple Approaches

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¶9. (U) The GVN is applying several different remedies to mitigate the effects of rising unemployment. First, MOLISA is pursuing expansion of labor exports. Vietnam currently has a total of approximately 500,000 laborers overseas, most working in agriculture, construction, and fishing. Remittances from export laborers for 2008 were estimated to be USD 1.6 billion. Approximately 85,000 workers went overseas in 2008 and the GVN has a 2009 target of 90,000, which it still hopes to meet in spite of the economic downturn. While key countries such as Taiwan, Japan and South Korea are reducing the numbers of export laborers accepted and even returning some to Vietnam prematurely, the GVN hopes to identify other destinations still needing workers, including countries in the Middle East.

¶10. (U) The GVN has also decided to provide assistance to the unemployed by supporting those enterprises that are forced to lay off workers. For those enterprises forced to reduce workers by 30 percent or enterprises losing 100 or more workers, the Vietnam Development Bank will make loans available at 0 percent interest. These loans can be used to maintain business operations and to provide termination payments to departing workers equal to two weeks salary for each year worked.

¶11. (U) Finally, the GVN is moving forward with implementation of Labor Code reforms initially passed in 2006, though these measures will not apply to all workers and will not provide benefits this year to those laid off. The new laws, which went into effect on January 1, 2009, create unemployment insurance for employees who lose their jobs or terminate their labor contracts. For employees to receive unemployment insurance benefits they must fulfill three requirements. First, only workers with employers with at least 10 employees will be eligible for benefits. Second, the employee must have an official labor contract with terms of at least 12 months. Third, the employee must have contributed to the unemployment insurance fund for at least twelve months before being unemployed. Since Vietnam only began collecting for the fund in 2009, employees can only receive their allowances in 2010 at the earliest and only if they meet the other qualifications.

¶12. (SBU) Comment: While estimates of unemployment vary, the message from our contacts is the same: the GVN will take actions to assist unemployed workers but is counting on the agricultural sector to absorb unemployed industrial workers, as well as the ability of informal laborers to find new types of employment. This is a reasonable calculation, but it is premised on the assumption that there are adequate land and employment opportunities in the villages. At this point, we do not see any significant indication that growing unemployment has led to social instability. Nevertheless, while apparently satisfied with its response so far, Vietnam's government and Party will be keen to forestall any possibility of unrest. End comment.

¶13. (U) This cable was coordinated with ConGen HCMC.

MICHALAK